

PX 104

From: Patrick Griffin [REDACTED]@ripple.com>
To: Brad Garlinghouse
CC: [REDACTED] Miguel Vias
BCC: Monica Long; Asheesh Birla [REDACTED]
Sent: 5/2/2017 7:00:13 AM
Subject: XRP Escrow Proposal

Hi Brad,

As you know we have been working on a proposal to secure company XRP holdings into an escrow schedule.

The goal of the proposal is to clearly describe the rationale behind 'locking up' our XRP and that the risks of doing so are very small, especially when compared to the possible benefits.

Here is the proposal, it's intended as a 'pre-read.'

Asheesh, Monica [REDACTED] Miguel and I (they're on bcc) met yesterday. While we are still buttoning up some details on the finance end, we have alignment that the downside scenarios are largely 'corner cases' [REDACTED] phrase of the day) and the proposal addresses some structural headwinds facing XRP liquidity.

We look forward to the discussion on Wednesday, where we will seek your approval to move ahead.

Patrick

--

Patrick Griffin
SVP Business Development | Ripple
[REDACTED]@ripple.com

Proposal to Consider XRP Escrow Schedule

Executive Summary

1. Our objective is to make XRP a liquidity tool for cross-border payments.
2. We want more XRP liquidity and while our efforts are helping, things are not moving as fast as we want.
3. As we look at the reasons why this is the case, the clear message we're getting is that the supply of XRP in the market is too uncertain for speculators to be comfortable being more active.
4. The root of this uncertainty is the fact that Ripple is sitting on 63B XRP that it *could* dump on the market at any time.
5. Placing the lion's share of Ripple's current XRP holdings into a transparently managed escrow account will remove that uncertainty and drive a material increase in XRP trading volume / liquidity. Of course, that delivers a lot of attractive benefits to Ripple.
6. As we assess the potential downside of this XRP 'lock up', we've come to the conclusion that the downside is very limited--this is largely a 'sleeves off our vest' proposal.
7. With an altcoin market that's heating up, and ETH solidifying the #2 spot, now's the time to go for it.

Objective

We want to make XRP a viable asset to provide liquidity for cross-border payments. The objective of this proposal is to build the prerequisite liquidity to make that possible by first securing speculative liquidity. The proposal is successful if we:

- Generate at least 2x more 2017 XRP bookings than currently forecast
- Stimulate immediate increase in volume and price appreciation
- Accelerate needed liquidity to support payment flows

Proposal Overview

Marketing survey results indicate the primary objections to buy centered around uncertainty with Ripple's holdings. Investor and capital market experts agree. Below is a proposal to address this headwind considering the 63B XRP we control:

- XRP for Cash Flow moved into a rolling escrow schedule: 60B XRP
 - 1B XRP released each month
 - Whatever is unused at month's end is returned to the 'back of the escrow queue'
- XRP set aside for Lending: 3B XRP
 - Ripple can move unused XRP into the lending pool
 - XRP can be returned to Ripple but only within the escrow schedule

Comparing the Status Quo

Another proposal is to do nothing at all. There are three views:

Scenario	Reality
----------	---------

Speculator market will continue to grow without any changes.	Though some growth is possible, XRP markets are unlikely to achieve the same level of robustness as traditional markets, or digital asset markets, without similar supply clarity.
Speculators are not needed as XRP is purpose built for payments.	The largest, healthiest markets in the world, all have significant speculator activity. Continuing down the road of building XRP markets without speculator interest is unlikely to lead to the necessary liquidity for payments.
Ripple will be able to monetize its XRP with the existing market development pace.	If Ripple targets \$200M from XRP revenue, we would need to sell 2B XRP per year if we assume that XRP prices without the lock up can average \$0.10. At this pace it would take 30 years to liquidate our holdings. The proposal has plenty of cushion with 12B XRP per year.

Requirements for Operational Flexibility

Cash Flow

Cash flow is defined here as cash generated from the sale of XRP combined with any payments in XRP, including incentives and employee compensation. The most we've ever spent was 941MM XRP in March of 2016 when XRP was trading at \$0.0073. On average, we spend around 300MM XRP each month. Considering the impact of the proposal is to constrain supply, then we expect price appreciation and thus fewer XRP to meet our cash flow needs.

➤ *Recommendation: Expose 1B XRP each month to the company for cash flow needs.*

Future Lending

In healthy financial markets, professional traders borrow the assets for which they are making markets to minimize their balance sheet risk. We should set aside a pool of XRP for the dedicated purpose of lending. Summary of expected lending needs:

	Spot Turnover	Daily Repo Market	XRP*
Gold	\$20B	\$2B	57B
XRP Today*	\$10MM	\$1MM	28.6MM
XRP = BTC Volumes	\$350MM	\$35MM	1B

*Assume XRP is priced at \$0.035

➤ *Recommendation: Set aside 3B XRP for lending.*

Business Deals

Business deals can be designed around locked-up XRP. The XRP can be pledged but delivered in the future as part of any deal.

➤ *Recommendation: No special carve out.*

Risks

Risk	Mitigation
Cash flow shortfall	<ul style="list-style-type: none"> Accounting for historical maximum at historical low price Long term cash needs should also come from s&s and trx revs
Lending shortfall	<ul style="list-style-type: none"> Setting aside a large pool Gold markets as proxy
Business deal obstacle	<ul style="list-style-type: none"> Pledge forward
Impact on valuation	<ul style="list-style-type: none"> Asset book value will face discount for liquidity or time--either/or
Desired outcome not achieved	<ul style="list-style-type: none"> No impact on current forecast OTC sales comprise majority of revenues, which are restricted
Reduced flexibility with financing	<ul style="list-style-type: none"> Debt structuring can track the shape of the time-mechanism Until there is a healthy financial market for XRP, debt financing will track the enterprise, not the asset

Rewards

Price Appreciation

The escrow schedule will help by addressing two different dynamics impacting the price:

1. Constraining supply, which limits the amount available for purchase.
2. Reducing the discount priced into XRP due to the uncertainty around supply.

Here's a framework for thinking about the impact of a constraining supply (directional only):

	Status Quo	With escrow Schedule
Market Cap	\$4B	\$4B
Supply (XRP)	100B	40B
Price Per XRP	\$0.04	\$0.10

In addition, the elimination of the supply risk may also yield a further remove some discounting.

As a sanity check, the XRP market cap will need to be large enough to support real payment volumes. It's hard to know what that means for the equilibrium price but it is likely higher than where it is today.

Volume Increase

Increased price volatility is generally accompanied by higher volume. XRP rallies in 2017 have seen daily volume levels between 25x and 150x higher than the preceding 1 month average daily volume. If our very rough price estimate is correct, this means XRP could trade over \$1B in the day or two after the announcement, and stabilize near \$100MM in daily volume.

Bigger XRP Bookings Commitment

Increased price and volume expectations will translate to higher XRP bookings for 2017:

	Daily Volume	H2 of '17	0.5% Income	Price	XRP
Current	\$10MM	\$183MM	\$9MM	\$0.04	304MM
Expected	\$100MM	\$18B	\$91MM	\$0.10	912MM
Adjust 50%	\$50MM	\$9B	\$46MM	\$0.05	912MM

Higher Valuation

In the worst case scenario, assuming the price moves up modestly and investors apply today's illiquidity discount on top of the new discount for the time-based constraints, the real asset value is basically the same:

	Status Quo	With Escrow Schedule
Expected price	\$0.04	\$0.10
Total XRP	60B	60B
Mark-to-market book value	\$2.4B	\$6.0B
Investor discount for illiquidity	50%	50%
Real value	\$1.2B	\$3.0B
Investor discount for time-constraints	N/A	50%
Real asset value	\$1.2B	\$1.5B

At the same time, cash flows are likely higher and more predictable. This is a sleeves off our vest proposal for a potentially better enterprise value.

Why Now

The altcoin market is heating up and the iron is hot. There is urgency to establish XRP as the emerging winner by dislodging ETH from the #2 spot. Nonetheless, we will pinpoint the timing

in Q2 such that we have enough exchanges listed and we're closer to moving real payment volume through XRP.

Questions for Discussion

1. Are there other downside risks that have not considered?
2. How do you think about the potential downside risk?
3. Do you agree that XRP markets are not properly structured for optimal liquidity?
4. Have we answered the question on the need for speculators to drive long term liquidity?
For example, is there a scenario where we 'skip' the speculator stage, get large payment volume, and build liquidity on the back of commercial flows?
5. Are we giving up our role as "the Fed" of XRP and perhaps a bigger role as the central bank for the best virtual currency in the world? Are we thinking too small?